



Office of Inspector General

MEMORANDUM FOR THE ACTING ADMINISTRATOR

DATE: June 7, 2017

FROM: Ann Calvaresi Barr /s/
Inspector General

SUBJECT: OIG Advisory Memorandums and Global Health Advisory on Internal Control Concerns

The Inspector General Act of 1978, as amended, calls upon Offices of Inspectors General to keep both agency leadership and Congress well informed about concerns over the integrity and effectiveness of agency programs and operations. Going forward, in connection with this mandate, the USAID Office of Inspector General (OIG) will share observations about agency vulnerabilities more proactively, based on OIG's extensive body of work. By reporting to agency leadership on critical risks, vulnerabilities, and inefficient or ineffective practices sooner, I aim to prompt changes that may result in monetary savings; curb fraud, waste, or abuse; and improve agency performance. Over the past year, investigative work concerning the management of global health commodities has revealed important vulnerabilities. Our work in this area underscores the need for OIG to periodically issue proactive advisories that can prompt timely corrective or remedial action.

We are currently developing an advisory memorandum format that OIG will use in the future to communicate these observations in a timely manner, as such needs arise. I also plan to share these memorandums with relevant congressional committees and post them on our public web site.

In the interim, I would like to bring to your attention the attached memorandum that we initially transmitted to the Bureau for Global Health. Some of the information contained in the memo, which will be publicly released, is sensitive and has been redacted in accordance with the Freedom of Information Act. Should you have any questions or need additional information, please contact me at (202) 712-1150.

Attachment



Office of Inspector General

MEMORANDUM

TO: Jennifer Adams
Acting Assistant Administrator
Global Health

FROM: Jonathan Schofield /s/
Special Agent in Charge
Africa, Europe, and Latin America and the Caribbean

SUBJECT: Internal Controls Concerns Regarding USAID Global Health Supply Chain –
Procurement and Supply Management Project (GHSC-PSM)

The purpose of this memorandum is to identify fraud prevention concerns to the USAID Bureau for Global Health (Global Health) regarding the USAID Global Health Supply Chain – Procurement and Supply Management (GHSC-PSM) project. In an effort to help safeguard against program fraud and abuse and to carry out its oversight mission, the Office of Inspector General/Investigations (OIG/I) will continually identify vulnerabilities within GHSC-PSM and make them known to USAID. In accordance with the Inspector General Act of 1978, the OIG is required to engage on matters “concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations... to recommend corrective action concerning such problems, abuses, and deficiencies, and to report on the progress made in implementing such corrective action.”¹

Ensuring the integrity of the USAID GHSC-PSM project is an ongoing OIG/I priority. We have conducted fraud awareness briefings at GHSC-PSM headquarters and are organizing fraud identification and prevention training at GHSC-PSM field offices. In the last several years, OIG/I has investigated individuals and syndicates in Africa that steal, transport and resell President’s Malaria Initiative (PMI) commodities such as bed nets and anti-malaria pharmaceuticals. By working with USAID missions, State Department offices, local law enforcement and international organizations, OIG/I has made numerous arrests and seizures of stolen and counterfeit commodities and developed a trove of experience to combat this fraud. OIG/I has stood up “cash for tips” hotlines in several African countries dedicated to obtaining actionable information against those who prey on the GHSC-PSM. In just the last eight months, OIG/I has coordinated with local law enforcement to execute the following USAID supply chain enforcement actions: searches of 17 locations and six arrests in Malawi in September 2016

¹ Inspector General Act of 1978, section 4(a)(5).

related to a PMI/Global Fund commodity theft investigation, with two additional arrests of Ministry of Health employees in February 2017; five arrests in Zambia of individuals responsible for stealing HIV rapid diagnostic test kits in November 2016; and seven arrests in Guinea in February 2017 related to trafficking in stolen PMI commodities. These and similar investigations are focused on identifying and neutralizing organized efforts to divert medications and commodities from supply chains, though the cases listed above predate the GHSC-PSM. We continue to identify schemes of varying sophistication in which local nationals, positioned at different points in the supply chain, take advantage of their access or knowledge to the detriment of the safe and effective delivery of medical commodities.

Officially launched in January 2016, the GHSC-PSM, awarded to Chemonics International, is the largest single indefinite delivery/indefinite quantity (IDIQ) contract in USAID history. With a \$9.5 billion ceiling for health commodities and technical assistance, GHSC-PSM is designed to make health commodities for HIV/AIDS, malaria, family planning and maternal and child health more readily and cost effectively available. The following issues were identified by OIG/I as potential areas of concern within the GHSC-PSM financial protocols that may expose the program to possible fraud and abuse.

The GHSC-PSM currently utilizes letters of credit (LOC) to allow the prime implementer to independently withdraw program funds electronically. OIG/I recognizes the financial benefits of LOCs as a funding mechanism, however this method of funding requires minimal certification and less accountability than alternative funding options. While the prime implementer is required to submit quarterly Federal Financial Reports (SF-425), these statements solely reflect high-level budgetary information and may be insufficient in this context. Furthermore, the SF-425 form does not require the recipient to certify that expenditures were made in compliance with the terms of their contract. Instead, the form requires the signatory to certify that funds were expended, “for the purposes and intent set forth in the award documents.” In a high-risk endeavor such as GHSC-PSM, compliance is key. USAID should consider enhancing the certifications associated with this project.

For detailed GHSC-PSM financial data, Global Health predominately relies on the prime implementer’s monthly budget statements. However, only the quarterly SF-425 requires a certification of account accuracy to the U.S. Government. Due to the scope and dollar value of GHSC-PSM, OIG/I recommends Global Health consider immediately incorporating appropriate certifications into future monthly budget statements – the detailed accounting of expenditures – to codify the signatory’s acknowledgement that he/she is subject to criminal, civil, or administrative penalties for any false, fictitious, or fraudulent information under U.S. Code, Title 18, Section 1001. By incorporating additional certifications into the financial reporting process, and requiring the implementer to certify that expenditures have been made in accordance with the terms of its award, overall accountability is increased.

Under FAR 52.203-13, subcontractors are required to institute a code of business ethics and conduct, as well as report all allegations of fraud to the Office of Inspector General. This is limited, however, to subcontracts in excess of \$5.5 million and with a performance period of

more than 120 days. Given the high-risk nature of GHSC-PSM's work, primarily at the end of the supply chain where local organizations and systems are involved, early fraud reporting is key to preventing little problems from becoming big ones. Current award conditions present a potential vulnerability in which subcontractors involved in complex aspects of supply chain operations are not required to report fraud to either the prime implementer or the OIG. USAID should consider working with the contracting officer (CO) and the prime implementer to ensure sufficient contractual language extends to subcontractors in order to ensure potential cases of fraud or corruption are reported in a timely manner.

OIG/I cautions Global Health to avoid overreliance on the prime implementer and its subcontractors' program oversight in lieu of its own. A recent allegation, brought to the attention of OIG/I by the project's contracting officer's representative (COR) during the GHSC-PSM program transition period, [REDACTED]

FOIA
Exemption 7(E)

[REDACTED] Though it was reported to the OIG, this should be viewed as a cautionary tale. Under GHSC-PSM, the supply chain will again be managed by a single prime implementer which could impact the certainty of allegations and losses being reported. Overreliance on implementer monitoring and fraud reporting can be problematic as has been demonstrated through our work and noted as one of USAID's top management challenges. Historically, major USAID implementers have failed to notify USAID or OIG in a timely manner when issues of fraud or corruption have come to light. This has led to critical programmatic disruptions, such as the suspension of approximately \$300 million worth of Syria-related programming by the Office of Foreign Disaster Assistance (OFDA) last year after serious (and unreported fraud) was uncovered. While Chemonics has an admirable internal compliance unit, prudent management of taxpayer funds dictates having multiple levels of oversight. As such, OIG/I recommends Global Health consider, *directly* employing independent firms to conduct annual or unscheduled audits of GHSC-PSM records, protocols and standard operation procedures (SOPs) to maintain satisfactory administration over program operations. OIG/I detected that while the prime implementer has annual corporate audits and limited subcontractor audit requirements, Global Health does not have established policies or procedures for routine GHSC-PSM focused audits.

In light of significant risks detected by the OIG, OFDA recently hired a risk mitigation advisor to monitor its work in and around Syria. The OIG recommends that Global Health consider hiring an equivalent full-time compliance officer/risk mitigation advisor dedicated to GHSC-PSM, which is exponentially larger – and poses greater risks – than the Syria relief effort. The officer, direct hire or personnel services contractor, could engage globally to test systems, conduct unannounced compliance checks and end user verification, provide training, ensure compliance and coordinate with the OIG.

Global Health would benefit from increasing frequency of spot checks at end-user facilities and deploying random record-keeping inspections at centrally managed warehouses by rotating Global Health teams. This should be considered in addition to its announced annual/ semi-annual management site visits to country offices managed by GHSC-PSM staff. Variances in administering personnel and the frequency of checkups curtail risks of bribery and graft while

also increasing the accuracy of reporting documentation. All site visits, including those by CORs, should be documented with field reports submitted to Global Health management and respective COs.

Centralized and secondary electronic record systems must also be available to Global Health in order to prevent inventory gaps and loss of documents or records. While the benefits of digitizing records is self-evident, it is key to also recognize that failing to keep such records not only raises risks, but simultaneously diminishes the ability to investigate allegations. In January 2015, OIG/I received a complaint declaring \$1,000,000 worth of USAID-funded malaria medication was unaccounted at the Ghanaian Central Medical Store (CMS) warehouse.

Complainants alleged that a [REDACTED] employee was forging invoices to conceal the spike in commodities disappearing from the warehouse. On January 13, 2015, a fire at the CMS warehouse destroyed a sizable portion of stockpile along with the only copies of the allegedly falsified documents. With evidence and records destroyed, OIG/I was unable to launch an investigation. To prevent similar loss and preserve data, GHSC-PSM would benefit from digitalization of records and documents that can be accessed off-site. From Pakistan to Nigeria to Haiti, failure to prioritize the need to digitize records creates complications and ultimately limits the OIG's options when allegations are received.

FOIA Exemption 7(F)

In 2013, Novartis began marking "Not for Sale" on its artemisinin-based combination therapy (ACT) packages to help prevent theft and resale on the advice of Global Health and OIG/I. Our office commends Global Health on its ongoing endeavors to strengthen identification and traceability of commodities through the adoption of the GS1 bar code standards. OIG/I encourages Global Health and its implementer to expand its tagging initiative and have suppliers label "Not for Sale" in English and local languages on medicine packaging, wherever possible. Additionally, OIG/I urges the inclusion of the message, "If found for sale, contact police/OIG at <https://oig.usaid.gov/>" to help prevent diverted, counterfeit or sub-standard commodities from entering local markets.

In circumstances where GHSC-PSM relinquishes control of healthcare products to host government ministries, OIG/I suggests Global Health consider seeking permission from host governments to retain inspection authority in order to conduct site visits, track distribution, safeguard commodities and prevent stock outs. GHSC-PSM personnel identified state-controlled warehouses in Nigeria, for example, as an area of program vulnerability originating from a lack of visibility due to shifts in commodity custody and no enforceable contractual relationships with state-controlled warehouses. OIG/I recognizes GHSC-PSM's plan to relocate products from state-controlled to third-party logistics (3PL) managed warehouses in Quarter 3/Quarter 4 of 2017 to augment program visibility, but additionally recommends considering a more robust response to some host country governments' unwillingness to allow inspections or partner fully with regard to commodities under their control. OIG/I suggests that Global Health engage, as necessary, with Department of State officials and local governments on behalf of its implementer to establish bilateral agreements and help facilitate site visits to state-controlled warehouses in all areas, including high-risk or remote ones. Insufficient oversight – or even presence – by GHSC-

PSM of government controlled facilities may increase the risk of criminals and opportunists exploiting inherent warehousing vulnerabilities.

OIG/I will continue to assist Global Health to overcome vulnerabilities and achieve effective program operations through our investigative work.

To ensure a productive conversation ensues, OIG/I looks forward to a response within 30 days. If you have questions or would like to meet at any point, please contact Jonathan Schofield, Special Agent in Charge, Africa, Europe, and Latin America and the Caribbean Division, at [REDACTED] gov.

FOIA Exemptions 6
and 7(C)



USAID
FROM THE AMERICAN PEOPLE

MEMORANDUM

Date: July 5, 2017

TO: OIG/I – Jonathan Schofield, Special Agent in Charge
Africa, Europe, and Latin America and the Caribbean

FROM: GH - Jennifer Adams, Acting Assistant Administrator /s/

SUBJECT: Response to OIG/I Memorandum, entitled "Internal Controls Concerns Regarding
USAID Global Health Supply Chain - Procurement and Supply Management
Project (GHSC-PSM)"

We would like to take this opportunity to respond to your memorandum of March 31, 2017, in which you identified potential areas of concern about the GHSC-PSM project and suggested certain actions to be taken by GH.

We want to thank you for your proactive suggestions to improve commodity security as well for conducting fraud awareness briefings at GHSC-PSM headquarters and organizing fraud identification and prevention training at GHSC-PSM field offices.

We take your suggestions seriously. The suggestions raise a number of policy, contractual, budgetary, and programmatic issues that require further consultation with the GHSC-PSM contractor, Missions, and the Department of State's Office of Global AIDS Coordinator, and it is therefore not possible to state at this time which suggestions are immediately feasible and actionable. To be as responsive as possible, we hope there will be an ongoing dialogue between GH and OIG/I, as we are committed to ensuring the success of this program. To that end, we will work with you to set up regularly scheduled meetings to discuss these and any other suggestions you may have. The point of contact is Sherif Mowafy, IDIQ COR, GH/OHA/SCH.

1. OIG/I recommended that GH consider immediately incorporating appropriate certifications into future monthly budget statements - the detailed accounting of expenditures - to codify the signatory's acknowledgement that he/she is subject to criminal, civil, or administrative penalties for any false, fictitious, or fraudulent information under U.S. Code, Title 18, Section 1001.

RESPONSE: We have discussed the OIG's suggestion with the Office of Acquisition and Assistance (OAA) who is currently consulting with the General Counsel (GC) as well as the implementing partner to determine the most appropriate venue for application. GH will inform OIG of the results of the Office of Acquisition and Assistance (OAA's) action and will consider this suggestion addressed/closed.

2. OIG/I suggested that current award conditions present a potential vulnerability in which subcontractors involved in complex aspects of supply chain operations are not required to

report fraud to either the prime implementer or the OIG. USAID should consider working with the Contracting Officer (CO) and the prime implementer to ensure sufficient contractual language extends to subcontractors in order to ensure potential cases of fraud or corruption are reported in a timely manner.

RESPONSE: We have discussed the OIG's suggestion with OAA who has discussed with the implementing partner to address this concern.

The Contractor has informed OAA that subcontract templates already include provisions against fraud, conflict of interest, bribery or gratuity, or false claims. Should any notification be provided to Chemonics related to conduct or ethics concerns in a subcontract, GHSC-PSM Risk Team will inform Chemonics' Office of Business Conduct per standard practice/policy.

The Contractor also notified OAA that it is in the process of updating templates in its Management Information System (MIS) to ensure that the FAR clause (FAR 52.203-13 Contractor Code of Business Ethics and Conduct) is included in the incorporated by reference list for all subcontract templates. The FAR/AIDAR clause table indicates the applicability of this FAR based on the thresholds set within the regulation. While this clause is already in some template formats, the Contractor will ensure it is consistent across the electronic contract management module, as well as templates outside the system.

The Contractor has also added the following as a sub-paragraph in an existing clause on Compliance and Applicable Laws and Standards:

- "(c) The Subcontractor shall undertake to perform the services hereunder in accordance with the highest standards of professional and ethical competence and integrity in Subcontractor's industry and to ensure that Subcontractor's employees assigned to perform any services under this subcontract will conduct themselves in a manner consistent therewith.
- i. The Subcontractor shall exercise due diligence to prevent and detect criminal conduct and otherwise promote an organizational culture that encourages ethical conduct and a commitment to compliance with law.
 - ii. The Subcontractor shall timely disclose, in writing, to Chemonics and the USAID Office of the Inspector General (OIG), whenever, in connection with this subcontract, or any Order issued hereunder, if applicable, the Subcontractor has credible evidence that a principal, employee, agent, or subcontractor of the Subcontractor has committed a violation of the provisions against fraud, conflict of interest, bribery or gratuity, or false claims found in this subcontract.
 - iii. The Subcontractor shall refer to FAR 52.203-13 Contractor Code of Business Ethics and Conduct incorporated by reference herein for applicability of additional requirements."

The Contractor assured OAA that when existing subcontracts are subject to a modification, it will insert the referenced clause when applicable.

The expected completion date is the end of July, dependent on MIS release dates and scheduled updates. Templates outside of MIS have already been updated.

GH will inform OIG of the final results and will consider this suggestion addressed/closed.

3. OIG/I recommended GH consider directly employing independent firms to conduct annual or unscheduled audits of GHSC-PSM records, protocols and standard operating procedures (SOPs) to maintain satisfactory administration over program operations.

RESPONSE: We consider this recommendation to include two separate sets of audits, financial audits and management reviews. While GH does not have a budget set aside for financial audits, we find the recommendation appropriate and necessary to strengthening oversight over financial records. We understand that the OIG/A is currently conducting research for such an audit and that they have contacted 15 countries to determine the audit universe. If the OIG/I believes that the OIG/A's financial review of selected PSM field offices is adequate, we will explore implementing a PSM HQ financial audit in FY18. GH will plan for annual or unscheduled financial audits. We will inform OIG of the results of such audits and will consider this recommendation addressed/closed.

As for the management reviews, we understand that Chemonics is ISO 9001 certified. The purpose of such certification is to ensure that an organization's management structure and procedures follow international best practices. Det Norske Veritas (DNV), a recognized ISO audit firm, delivered the management system certification. This means that Chemonics' project management approach has been codified in accordance with the international ISO 9001: 2008 standard. If the IG accepts such review of SGS, we will consider this recommendation to be adequately addressed/closed.

4. OIG/I suggested that Global Health consider directly hiring a full-time compliance officer/risk mitigation advisor dedicated to GHSC-PSM to engage globally to test systems, conduct unannounced compliance checks and end user verification, provide training, ensure compliance and coordinate with the OIG.

RESPONSE: We agree to develop a risk mitigation plan that GH supply chain staff at HQ and Missions could implement. Mission staff currently implements end user verification activities under the President's Emergency Plan for AIDS Relief (PEPFAR) Site Improvement Monitoring System (SIMS). SIMS is an interagency system developed to be a comprehensive and detailed tool that ensures quality of care including commodity availability. Upon request, we will make available all three SIMS Modules for HIV for your review. We can also provide a snapshot of SIMS Results for the period from October 2016 to March 2017 showing USAID site data in all countries that assessed commodity availability at the treatment site level. The President's Malaria Initiative (PMI) also supports regular end use verification assessments. These traditionally have been implemented by our supply chain partner, but we will ask Mission staff to participate in the assessments moving forward.

GH and Mission staff will not be able to conduct unannounced compliance checks of partner Governments' owned facilities, i.e. warehouses, hospitals, etc., without agreement between Missions and partner Government. Our ability to hold sovereign Governments accountable once ownership has transitioned is much more limited than holding a USAID contractor accountable. In order to implement OIG's suggestion, U.S. Embassies must enter into discussions with partner Governments to allow such access. We will initiate discussions with a select number of countries to move this forward.

5. OIG/I suggested that GH would benefit from increasing the frequency of spot checks at end-user facilities and deploying random record-keeping inspections at centrally managed

warehouses by rotating Global Health teams.

RESPONSE: See answer to number 4 above.

6. OIG/I suggested that centralized and secondary electronic record systems must also be available to GH in order to prevent inventory gaps and loss of documents or records.

RESPONSE: One of the Agency's largest investment areas for health supply chain strengthening is support to implement supply chain visibility and, more recently, track-and-trace solutions. These investments will enable GH to implement electronic logistics management information systems and centralized electronic records. Investments also focus on capacity building for the effective maintenance, security, and access to and use of electronic data for supply chain decision-making, transparency and accountability. Examples of ongoing work include Pakistan, Tanzania, Ethiopia, Malawi, Nepal, and Nigeria. USAID is also collaborating with many global donor programs and partner Governments to incorporate the use of global product identification standards by suppliers through global procurement contracts. USAID expects manufacturers to adopt identification standards by December 30, 2018. This is another building block for enhanced end-to-end supply chain visibility as it enables greater interoperability and capture of standardized data between donor and country information systems.

In parallel with these technical solutions, GH is actively advocating for open data policies and data exchange with host country governments. There has been significant progress. As part of the transition to the new GHSC program, GH was able to obtain and archive large amounts of country-owned supply chain data that was supported by the incumbent DELIVER and SCMS projects. Moving forward, accessing partner Government-owned supply chain data on an ongoing basis will be negotiated with Governments. In some cases, such as Tanzania, the partner Government has an open data policy and has agreed to share both warehouse management data and site level requisition data. The Tanzania data is currently being captured in GH's central Business Intelligence & Analytics (BI&A) system for the GHSC program. The Tanzania experience is providing valuable lessons. One, already mentioned above, is the necessity of global data standards to enable future data exchange with countries. Mission-funded programs elsewhere are now promoting the implementation of global data standards in country systems.

Implementing effective solutions for the capture and secure maintenance of supply chain data, and sharing such data with USAID, are priorities for GH. Substantial progress has been made, lessons learned. Some countries are further along than others, and GH shares the OIG's concern that there remains much to do. This will remain one of the largest areas of investment for USAID's supply chain assistance. Given limited resources, GH will conduct a review of where the loss of documents or records (like that highlighted by the OIG from Ghana) poses greatest risk to USAID's commodity programs. We will work in partnership with Missions to review their ongoing efforts to improve country data systems and promote data exchange, and identify how these efforts may be strengthened to implement this recommendation.

7. OIG/I suggested that GH and its implementer have suppliers label "Not for Sale" in English and local languages on medicine packaging, wherever possible and include "If found for sale, contact police/OIG <https://oig.usaid.gov/>" to help prevent diverted, counterfeit or sub-standard commodities from entering local markets.

RESPONSE: As a general proposition this would be a very expensive undertaking and the evidence from the Global Fund efforts to mark products "not for sale" proved to have no or minimal results in deterring theft (according to the Global Fund). Changing the labeling of a pharmaceutical is a costly undertaking for the manufacturer requiring new production and labeling lines. These costs would be passed on to USAID country programs. More importantly, it would require new registration by all manufacturers of all products in all partner countries. The average registration period is two years. There are some products for which host nations do sell or charge for products as part of social marketing programs. There may be a particular medicine or medicines where the benefits of marking would outweigh the costs but at this moment we are not aware of any.

8. OIG/I suggested that where GHSC-PSM relinquishes control of healthcare products to host government ministries, that GH consider seeking permission from host governments to retain inspection authority in order to conduct site visits, track distribution, safeguard commodities and prevent stock outs. OIG/I suggested that Global Health engage, as necessary, with Department of State officials and local governments on behalf of its implementer to establish bilateral agreements and help facilitate site visits to state-controlled warehouses in all areas, including high-risk or remote ones.

RESPONSE: See answer to number 4 above.

Finally, thank you for identifying potential areas of improvement of the GHSC-PSM program. We look forward to partnering with the OIG to exchange information and implement measures to strengthen ongoing efforts.

CC:
Justin Brown, Deputy Inspector General



MEMORANDUM

Date: November 1, 2017

TO: OIG/I – Jonathan Schofield, Special Agent in Charge
Africa, Europe, and Latin America and the Caribbean

FROM: GH – Irene Koek, Acting Assistant Administrator

SUBJECT: Update to the Response to Memorandum for the Office of Investigations of the Office of the Inspector General (OIG/I), entitled, “Internal Controls Concerns Regarding USAID Global Health Supply Chain - Procurement and Supply Management Project (GHSC-PSM)”

We would like to take this opportunity to provide an update on the actions we have undertaken in response to your memorandum of March 31, 2017, in which you identified potential areas of concern about the GHSC-PSM project, and suggested certain actions to be taken by the Bureau for Global Health (GH).

We have taken your suggestions seriously, and have made progress in a number of areas. As we mentioned in our initial response, some suggestions require further consultation with the Department of State’s Office of the Global AIDS Coordinator, U.S. Embassies and our overseas Missions, and manufacturers. We have outlined in our update how this engagement would take place within a broader plan to assess, manage and mitigate risk under the GHSC-PSM contract. Our updates appear under each OIG suggestion:

1. OIG/I recommended that GH consider immediately incorporating appropriate certifications into future monthly budget statements - the detailed accounting of expenditures - to codify the signatory's acknowledgement that he/she is subject to criminal, civil, or administrative penalties for any false, fictitious, or fraudulent information under U.S. Code, Title 18, Section 1001.

UPDATE: Chemonics is now including appropriate certifications on financial reports to acknowledge that members of the GHSC-PSM consortium are subject to criminal, civil or administrative penalties for any false, fictitious, or fraudulent information.

2. OIG/I suggested that current award conditions present a potential vulnerability in which subcontractors involved in complex aspects of supply chain operations are not required to report fraud to either the prime implementer or the OIG. OIG/I recommended that USAID consider working with the Contracting Officer (CO) and the prime implementer to ensure

sufficient contractual language extends to subcontractors to ensure potential cases of fraud or corruption are reported in a timely manner.

UPDATE: In addition to provisions against fraud, conflict of interest, bribery or gratuity, or false claims originally included in GHSC-PSM subcontracts, the contractor has included Federal Acquisition Regulation (FAR) clause 52.203-13 (Contractor Code of Business Ethics and Conduct) in its subcontract template, and is adding it to existing subcontracts when they are due for modification. The OIG participated in the GHSC-PSM Suppliers Summit in February 2017, and led a session for participating suppliers, entitled “*USAID and OIG’s Unique Partnership with Supply Chain Manufacturers.*” The contractor continues to provide its subcontractors with an orientation similar to the one provided at the Suppliers Summit on fraud and how to report suspected incidents.

3. OIG/I recommended GH consider directly employing independent firms to conduct annual or unscheduled audits of GHSC-PSM records, protocols and standard operating procedures (SOPs) to maintain satisfactory administration over program operations.

UPDATE: Once GH understands the scope and timing of the planned audit of the GHSC-PSM project by the OIG, we will schedule future financial audits. As part of our management oversight, GH will conduct regular data quality audits. We will coordinate with the Global Fund on audits in countries where we jointly support commodity procurement and supply chain strengthening to fight AIDS, Tuberculosis, and Malaria.

4. OIG/I suggested that GH consider directly hiring a full-time compliance officer/risk mitigation advisor dedicated to GHSC-PSM to engage globally to test systems, conduct unannounced compliance checks and end user verification, provide training, ensure compliance and coordinate with the OIG.

UPDATE: GH has prepared a scope of work to hire an external consultant to conduct a risk management assessment and produce a corresponding implementation plan. The risk management plan will focus and coordinate our supply chain risk mitigation efforts, and guide our decision on whether our current staff, in Washington and at Missions, will be able to implement the plan, or if a dedicated Risk Manager is required. The plan will highlight countries and product types that are high risk, and will prioritize countries with which we should launch bilateral negotiations to obtain unannounced access to facilities. We will begin working with the U.S. Embassy in a high-risk country to pilot an approach to gain unscheduled access to warehouses and other sites.

We will share a draft of the scope of work for the risk management consultant with the OIG, and would welcome the OIG’s insights on the key themes the risk assessment should cover.

In most countries, USAID Mission staff are responsible for conducting Site Improvement Monitoring Systems site inspections for the U.S. President’s Emergency Plan for AIDS Relief (PEPFAR), and have been asked to participate in End Use Verification (malaria, maternal and child health, and family planning) assessments as well.

5. OIG/I suggested that GH would benefit from increasing the frequency of spot checks at end-user facilities and deploying random recordkeeping inspections at centrally managed warehouses by rotating USAID teams.

UPDATE: See update to number 4 above.

6. OIG/I suggested that centralized and secondary electronic record systems must also be available to GH to prevent inventory gaps and the loss of documents or records.

UPDATE: As described under point 4 above, our supply chain risk mitigation plan will identify high-risk countries and product types. In addition to negotiating access to facilities in the identified subset of countries, we will identify countries that would benefit from greater visibility, and work with our Missions and U.S. Embassies and our USAID Missions to support strengthening electronic logistics management information systems, promoting open data policies, and promoting access to supply chain data.

We are leading the effort to apply global data standards in our procurement and supply chain, in coordination with other large procurers. Starting from 2018, contracts with our vendors will require that they adopt Global Standards 1(GS1) product identification standards and use global trade item numbers. Over three phases, we will require vendors provide more standardized data, moving from tertiary to secondary packaging. The Government of South Africa recently announced that it is requiring global data standards from its vendors, which aligned with USAID's requirements. Additionally, USAID is providing technical assistance to national drug regulatory authorities in Pakistan and Ethiopia to adopt global standards. USAID is also in discussions with the Global Fund and the United Nations Population Fund around requiring the same standards with their vendors. This standardization will allow greater data exchange with partners and eventually with national authorities.

7. OIG/I suggested that GH and its implementer have suppliers include the phrase, "Not for Sale" in English and local languages on medicine packaging, wherever possible and include "If found for sale, contact police/OIG <https://oig.usaid.gov/>" to help prevent diverted, counterfeit or sub-standard commodities from entering local markets.

UPDATE: The supply chain risk mitigation plan described under point 4 will identify high-risk products, and help us further explore the feasibility and utility of requiring additional labeling, including the cost, regulatory requirements and interchangeability with other donor-funded products for these products. Additionally, GS1 barcodes will enable quick identification of potentially diverted product as an alternative to additional labeling.

8. OIG/I suggested that where GHSC-PSM relinquishes control of healthcare products to host government Ministries, that GH consider seeking permission to retain inspection authority to conduct site visits, track distribution, safeguard commodities and prevent stock outs. OIG/I suggested that we engage, as necessary, with Department of State officials and local governments on behalf of its implementers to establish bilateral agreements and help facilitate site visits to State-controlled warehouses in all areas, including high-risk or remote ones.

UPDATE: See update to number 4 above.

CC:
Justin Brown, Deputy Inspector General



Office of Inspector General

MEMORANDUM

TO: Irene Koek
Senior Deputy Assistant Administrator
Bureau for Global Health

FROM: Jonathan Schofield /s/
Special Agent in Charge
Africa/Europe/Latin America

SUBJECT: OIG Evaluation of USAID/Global Health Updated Response to OIG Advisory,
*Internal Controls Concerns Regarding USAID Global Health Supply Chain
Procurement and Supply Management Project (GHSC-PSM)*

On June 7, 2017, the Office of Inspector General (OIG) issued the subject advisory memorandum, which contained eight recommended actions for the Global Health Bureau.¹ The Bureau responded to the advisory memorandum in a July 5, 2017, memorandum and a subsequent update on November 1, 2017. OIG's evaluation of the Bureau's response to the advisory memorandum follows.

The Bureau stated management decisions on all eight recommended actions and reported that it had taken final action on recommendations 1, 3, 6, and 7. The Bureau further reported that it expected to complete final action on recommendation 2 by July 31, 2017, but did not establish timeframes for completing final action in response to recommendations 4, 5, and 8.

OIG agrees with the management decisions provided but requests that the Bureau provide the timeframes established for completing final action on recommendations 4, 5, and 8. For recommendation 3, OIG recommended that the Bureau directly employ independent firms to conduct annual or unscheduled audits of the GHSC-PSM records, protocols, and standard operating procedures. While OIG agrees with the management decision on recommendation 3, OIG reiterates the need for independent firms to conduct these audits.

¹ The advisory was based on work conducted by OIG's Office of Investigations, which is not subject to Generally Accepted Government Auditing Standards, but rather the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Investigations.